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AUTHOR Blackman, Hugh, Ed.; Coronel, Leandro V., Ed.
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ABSTRACT

The World Bank, operating in a complex, diverse, and changing environment, provides financial advice and support to developing nations that range from macro-economic management to project design. Major changes in management systems have occurred during the 1980s and are reflected in the bank's assistance in: (1) analytical support of policy implementation; (2) mobilization and coordination of external resources; and (3) lending and institutional support. Financial support is the most visible and tangible aspect of the World Bank's assistance, and this document describes how it is provided and how time frames and staff costs are measured. Key stages in the bank's lending cycle include: (1) identification of a country's specific investment proposals and programs; (2) preparation of materials needed for pre-financing decision making; (3) technical, financial, economic, and institutional viability appraisals in relation to suitability for World Bank financing; (4) negotiations concerning the scope, terms, and conditions involved in financing an operation; (5) the implementation period; and (6) the evaluation of a completed project. Case studies and graphs are included. (JHP)

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WORLD BANK NEWS

SPECIAL REPORT

April 1986

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THE WORLD BANK'S LENDING APPROACHES: A SPECIAL WORLD BANK NEWS REPORT

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PREFACE

The World Bank, which consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), has one central purpose: to promote economic and social progress in developing nations by helping raise productivity so that their people may live a better and fuller life.

The World Bank provides assistance for projects, and programs, including programs of economic adjustment, that are of high priority for the borrowing country.

The IBRD makes loans only to creditworthy borrowers. IDA's assistance is concentrated on the very poor countries --mainly those with an annual per capita gross national product of $790 or less (in 1984 dollars). In practice over 90% of IDA's lending goes to countries with a per capita GNP of less than $400.

Every project or program supported by the Bank is designed in close collaboration with national governments and local agencies, and often in cooperation with other multilateral assistance organizations.

The success of the Bank's operations depends upon the trust it has established with borrowers, and this trust is based on the experience and technical skills the Bank has demonstrated over the years in working with its developing member countries.

The types of assistance that the Bank provides to its members varies widely depending on the nature of each country's needs. But the procedures for all member countries, whether for IDA credits or IBRD loans, are the same.

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THE WORLD BANK'S OPERATING APPROACHES TODAY

Introduction

The World Bank's operating approaches are rapidly evolving. In recent times the Bank's work has broadened significantly and the Bank has adapted its approaches to the major array of issues that have confronted - and continue to confront - its member nations. The advisory and analytical work undertaken by the Bank has, for example, been significantly strengthened. This report describes how the Bank conducts its work today to most effectively assist its members as they confront formidable development challenges.

The World Bank's operating procedures reflect a number of basic features inherent in its mandate. These features are summarized briefly below.

First, the environment in which the World Bank operates is complex, diverse, and constantly changing. The Bank seeks to provide its members with advice on matters ranging from macro-economic management to project design. It also offers assistance in the formulation of development strategies and investment programs, the mobilization and coordination of resource flows to support these programs, the management of institutions, and the implementation of new investments.

While the broad development objectives of the Bank's members are very similar, the means available to achieve them are as diverse as their physical endowments, cultural and social patterns, political systems, and levels of development. It is because of this diversity that each operation is unique -- tailored to fit the particular needs of the situation. Clearly, the technical design features of projects vary, but so do the capacity to implement projects, governmental commitment to change, and the political feasibility of policy measures, among other factors.

The common thread in Bank operations is to try to provide the individual borrower with the professional advice and support most relevant to his needs. But the diversity of operating environments and of the work undertaken by the Bank make comparative measurements of costs and efficiency uniquely difficult.

Second, World Bank operations emphasize quality considerations. This is not an academic search for perfection, but flows from the Bank's responsibility vis-a-vis each borrower, the need to maintain the highest possible standing in the financial markets, and the demands made on the Bank by the international community for leadership in a wide range of analytical and operational activities. These include project evaluation, public investment reviews, and aid coordination.

The Bank has traditionally given great weight to providing quality products to borrowers. And rightly so, for major investments are at stake, with long-term consequences for the country and involving large amounts of financial and human resources. Investment decisions are often subject to many pressures arising from diverging political and social objectives, bureaucratic struggles, and domestic and foreign commercial interests, which often obscure developmental objectives.

The Bank assesses the longer-term development consequences of investments or policy changes, and is seen as providing professionally sound and independent advice, consistent with the country's objectives and capacities, on key issues. This advice may not always turn out to be correct in retrospect, but the fact that it is reached independently and professionally is the crux of the Bank's relationship with its borrowers and is the foundation of its reputation.

Third, the World Bank is, of course, a public institution, publicly accountable to its shareholders and, through them, to their public. Furthermore, the Bank, as the largest lender among development institutions, is engaged at the broadest level with its borrowers, and has the most diverse membership. These characteristics impose on the Bank a more formal, document-oriented working style than is common in most other financial institutions, whether public or private.

All Bank transactions must be transparent. The basis for decisions must be publicly defensible and all borrowers must not only be treated equitably and consistently, but must also be seen to be so treated. This gives rise to a substantial paper flow designed to anticipate and respond to requests by the Board, individual Executive Directors and their authorities, other lending institutions and investors, and myriad public interest groups, for background information and elaboration of management decisions. In addition, the evolution of Bank policies and procedures is an interactive process between the Bank staff and its management, the borrower and the Board, with new or adapted instruments or procedures emerging in response to perceived needs.

The public nature of the institution is therefore reflected in its standard policies and procedures, the careful monitoring of adherence to these standards, and the especially close attention which is paid to the procurement of goods and services involving the use of Bank funds.

Against this general background, the Bank has developed operating policies which seek to balance its capacity to respond to the increasingly complex development objectives of its clients, while maintaining or enhancing the quality of decision-making based on prudent and consistent standards of analysis. It seeks to do so at the lowest cost both in time and resources.

Over the last five years or so, major changes in management systems and procedures within the Operations complex have been designed and tested. This review and restructuring of management systems and procedures has been undertaken to ensure that:

- with a lending program growing both in size and complexity, there is clear accountability;

- in the face of increasing demand for more diversified services on the one hand, and with limited budgetary resources on the other, priorities are clearly defined and the most cost-effective approaches adopted; and

- in a rapidly changing world environment, with many economies needing urgent adjustment, the system would permit a capacity to respond quickly to changing requirements.

The revised systems aim to achieve overall efficiency and to provide managers with the tools to monitor and evaluate the costs of achieving their work program.

The main elements of the Bank's operational work are described here to put into context the changes that have been made in its procedures.

The Bank's Operational Output

The Bank's country assistance falls into three main categories:

- Analytical support for the formulation and implementation of policy, primarily Country Economic and Sector Work (CESW);
- Mobilization and coordination of external resources; and
- Lending and institutional support -- the identification, appraisal, financing and implementation of individual operations.

These categories of country support, although discussed individually below, are closely interrelated. CESW frequently identifies areas requiring institutional and financial support. Lending operations often hinge on the findings of past CESW and identify institutional and analytical weaknesses requiring support. CESW identifies overall financial needs and often is the basis for mobilizing external capital. And Bank lending provides channels through which other financiers can direct their support.

Clearly, the role of the borrower is central to all of these activities -- both in determining the nature of the Bank's assistance and in applying the Bank's analysis and research. The borrower's capacity to play its role in this process has a decisive influence on the content and effectiveness of Bank operations. The role of the borrower is, therefore, a key element underlying any discussion of Bank work.

Country Economic and Sector Work accounted for about 360 staff years in FY85, and has increased by almost 40 percent since 1981. CESW is supported by research on global development and sectoral issues by the Economics and Research, and the Operations Policy Staff. The Bank's macroeconomic and sectoral dialogue with its borrowers depends on this work, which also provides the foundation for lending for structural and sectoral adjustment and for specific investments that are often identified in the course of sector analysis.

Country Economic and Sector Work is neither an independent nor an abstract activity. It is done in close collaboration with the country and lays the basis for future lending and institutional strengthening. Of course, countries differ in their capacity to participate in the analysis. A great deal of technical assistance is provided and technology transferred in the course of CESW. The range of reports is wide -- from sharply focussed memoranda of ten pages or less, specifying policy options and recommendations on a specific issue, to full-fledged, multi-volume reports, intended to provide a comprehensive analysis of a sub-sector, sector, or an entire economy.

Much of the CESW is informal, and is provided to policy-makers for their use in evaluating policy options. The staff resources required for these products vary widely reflecting their wide diversity in focus and objectives. (SeeBox 1 for a brief discussion of one important aspect of CESW --Public Investment Program Reviews).

Box 1

Country Economic and Sector Work -
Public Investment Program Reviews

A recent survey of the status of World Bank work on Public Investment Program Reviews (PIPRs) shows that reviews are being, or have been, undertaken for almost 70 percent of borrowers. The results of these reviews are presented in the form of aide memoires, informal reports, or Board documents. Their primary objectives are to make specific recommendations to governments on the size, composition and viability of programs for new investments, maintenance and rehabilitation, and operating costs in the light of available resources. These reviews also aim to improve the institutional framework for identifying and evaluating new investments on a systematic and continuous basis.

Past reviews generally covered the agriculture, transport, industry, energy, and education sectors, but other sectors are also addressed to the extent possible. Data for a sample of such reviews completed since FY82 indicate that Bank staff input varied from 8-254 staffweeks with a median value of 49 weeks. Only six reviews took more than 100 staffweeks.

Experience indicates that borrowers show considerable interest in PIPRs and the country dialogue on these reviews is especially valuable. PIPRs are a cornerstone of the Bank's aid coordination efforts and frequently feed into the elaboration of IMF programs.

Mobilization and coordination of external resources have become increasingly important Bank activities. The Bank now chairs 25 consortia and consultative groups, does much of the preparatory work for the Indonesia Intergovernmental Group chaired by the Netherlands, supports the analytical work of UNDP roundtables, and seeks to increase both official and private flows to borrowers.

About half of all operations in the IDA-only countries were cofinanced with official donors over the past five years and framework agreements to enhance official cofinancing have been signed with 11 countries and two development agencies. Official cofinancing reached over $2.4 billion in 1985. The Bank is extensively engaged with the commercial banks in stimulating financial support for the heavily indebted countries. The Bank is also deeply involved with the Paris Club, both to share general assessments of prospective requirements, and in the consideration of individual rescheduling operations. The benefits derived from efforts to mobilize and coordinate financial flows extend beyond the financing itself.

This coordination effort serves to focus potential financiers on priority activities and reduces the risks that they will be asked to finance activities of low national priority. Reliable data on staffweeks spent on these activities are not available, since this work is not readily separable from CESW and lending work, but these tasks are heavily time- and staff-intensive, as indicated in the brief discussions of the Bank's aid coordination efforts in Chile and Senegal (Box II).

Box II

The Bank's Role in Financial Mobilization and Aid Coordination

Case Study I

Chile. In March 1985, the Bank assumed an active role in helping Chile negotiate with its international commercial creditor banks, the country's requirements for new external financing for 1985 and 1986. The rationale for the Bank's involvement was based on two facts:

(i) Chile's economic situation and level of external indebtedness had ruled out voluntary commercial bank lending; and

(ii) it was unlikely that the commercial banks would be forthcoming in the amounts required without strong World Bank participation. A four-party effort was initiated that brought together the Chilean authorities, the commercial banks, the IMF and the World Bank. The contribution of each of these parties was essential to the success of the entire effort, requiring substantial coordination of activities and harmonization of legal arrangements.

In the seven or eight months that followed, the World Bank maintained continuous contact with the Chileans, the IMF and the commercial banks, while preparing a structural adjustment loan, a highway sector A-loan and an associated B-loan. These operations were critical in closing Chile's overall financing gap for 1985 and 1986.

The Bank's role in assisting Chile in obtaining its external financing requirements was undertaken in addition to an ambitious program of regular lending and economic and sector work.

The World Bank has actively encouraged other donors to take a leadership role in aid coordination for countries or sectors where these donors are particularly active and knowledgeable. However, donors are generally unwilling to play this lead role, either because of resource limitations or because they regard the World Bank as more appropriate for this work.

Case Study II

Senegal. Since early 1984, the Bank has embarked on an intensive aid coordination effort in Senegal. This effort has two main objectives:

(i) to ensure consistency and complementarity between the policy content of the various donor-supported structural adjustment type operations; and

(ii) to improve the quality of the investment program by coordinating investment decisions between Senegal and the donors as well as among donors.

The Consultative Group (CG) for Senegal provides the broad framework for achieving these objectives. The first meeting of the CG held in December 1984, was attended by 23 donors. In preparation for the CG, the Bank prepared a Country Economic Memorandum and helped the government prepare a medium-term economic adjustment program which outlined a framework for policies and reforms. The meeting reached a consensus on the main areas of economic policy to be addressed and was able to mobilize aid commitments. In addition, within the CG framework, sector donor meetings were held on telecommunications in December 1984 and on energy in July and October 1985, which reached a consensus on sectoral strategies, investment priorities, and the requirements for external financing.

Finally, during the preparation of the recent structural adjustment credit, the Bank made a major effort to coordinate the content of the various donor-supported policy-based operations. Since then, local aid coordination efforts have been strengthened, with the Bank's Resident Mission actively involved with other local donor representatives in this work.

Lending and Institutional Support. The Bank's loans address a broad range of development needs, ranging from technical assistance loans to structural adjustment loans, and cover most sectors. Bank loans are designed to do more than transfer financial resources. In the course of its lending, the Bank provides assistance in the development of projects, in procurement and contracting and in implementation. This is provided through extensive supervision totalling over 400 staffyears annually. This assistance frequently results in substantial savings to borrowers through better project selection, through adjusting designs or using more appropriate standards, introducing energy conservation investments, or by reducing investments in new infrastructure through better maintenance.

Institutional support is a key component of all Bank lending. However, the objective of strengthening the borrower's institutional capacity has its costs -- both in staffyears and time required for implementation.

A central objective of development is to reduce dependence on external support for analysis, project formulation, and management. The Bank, therefore, aims to minimize the external inputs necessary to identify, evaluate and implement lending operations, since the on-the-job training of local staff in these areas is central to sustainable development. Moreover, this is central to the commitment of the borrower to each operation. The Bank believes that it should help its borrowers to the fullest extent possible, but without permitting an operation to become "the Bank's" rather than the country's. When external support is provided, it serves a training function wherever possible, even if this is at some cost to the speed of implementing the operation. But in the medium term, this type of institution-building effort yields a substantial return, as borrowers develop the capacity to identify, appraise, and implement priority investments.

An accurate evaluation of the institutional capability of each borrower is essential to the successful implementation of lending operations. But it is time-consuming and difficult.

Financial support is the most tangible and visible aspect of the Bank's assistance and the remainder of this discussion is therefore concentrated on this support, how it is provided and the time and staff costs required.

The lending cycle--a continuum of actions--is summarized schematically in Box III. The nature of the tasks undertaken by the Bank and the borrower throughout the cycle vary widely depending on the complexity of the lending operation, the capacity of the borrower, the role of other donors, and the linkages of the operation with other assistance being provided by the Bank or by others.

The various stages of the lending cycle are closely interrelated. Adequate preparation facilitates appraisal; appraisal involves the planning of implementation and also provides the basis for evaluation; and the evaluation of existing operations influences the identification and preparation of new operations. As a result, insufficient attention to any one stage in the lending cycle will generally result in difficulties at another stage.

Box III

Key Stages in the Lending Cycle

Identification is the stage at which a country's national development plans, policy objectives and sector strategies are translated into specific investment proposals and action programs, and their possible suitability for Bank financing is first determined.

Preparation consists of studies needed to bring an investment or an adjustment proposal to the point at which national decision-makers can decide whether to proceed with it and the Bank can decide whether to appraise it. The above two stages constitute the pre-appraisal of an operation.

Appraisal is the final process by which the Bank determines the technical, financial, economic and institutional viability of an operation and its suitability for World Bank financing.

Negotiations with the borrower, and if applicable, with other financiers result in a formal agreement on the scope, terms and conditions of the operation.

Board approval and loan signing involve providing all the necessary information on the operation to permit the Board to approve the loan and to enable the Bank to enter into a binding agreement with the borrower.

Implementation covers the period during which an investment is made operational, a phase of an adjustment program is completed, or technical assistance or engineering studies are executed and the loan is disbursed. During this period, Bank supervision helps to ensure that the operation is adapted as necessary to achieve its development objectives.

Evaluation of the completed operation seeks to determine whether the objectives of the operation have been achieved and to draw lessons for future operations.

Since Bank-financed operations are far from standard,there are large variations in the length of the lending cycle, the nature of the Bank's procedures and the processing costs for individual operations. The entire cycle-- from identification through disbursement and evaluation--may be as short as five years in the case of a structural adjustment loan, in which the government is able to take major policy decisions promptly and which is quickly disbursed, and even less on an emergency loan. But it may be as long as 20 years or more for a major irrigation project involving extensive technical and economic studies of a river basin, engineering and construction of dams and irrigation channels, organizing and training staff, and ultimately settling farmers and providing them with extension and other services.

Efficiency: Measuring Time and Staff Costs

In principle, efficiency can be measured by the time taken to complete each task--elapsed time--and the amount of staff resources required--applied time. Although the Bank monitors both of these measures, their analytical value is quite limited because they cannot capture considerations relating to quality or complexity, or the influence of other factors which often largely determine time and staff costs. In addition, the developmental impact of the Bank's work cannot be measured or related directly to these costs.

Elapsed time measures the total time which passes between various stages in the cycle. It includes the time required by the Bank to complete tasks as well as the time required by the borrower, cofinanciers, and other actors to complete their work.

Applied time measures the input of the staff of the Bank's Operations complex. This is the most direct measure of Bank costs available but it is affected by the input of others. A complex appraisal may require below average applied time, either because the borrowing agency is well-equipped to carry out the work, because external technical assistance has been provided by the Bank or others, or because much preparatory work was already undertaken through previous lending or sector work.

For illustrative purposes, historical data for the stage of the lending cycle, from the departure of an appraisal mission to the approval of an operation by the Board, are reviewed below. These data reveal a wide variety of elapsed and applied times, both between Regions and over time. Some Regional patterns are discernible in these data, however few other systematic variations can be identified.

The median elapsed time from departure of the appraisal mission to Board presentation was 43 weeks for all operations which became effective in FY81-85, ranging from 11-226 weeks. The median Bank-wide elapsed time for FY76-80 was slightly lower at 40 weeks, while the range was considerably narrower, at 7-154 weeks. The median Bank staff cost--applied time--for this stage in FY76-80 was 73 staffweeks, with a range of 2-319 staffweeks. For FY81-85 the median cost was 66 staffweeks--10 percent less--with an almost identical range.

When the input of Bank staff prior to appraisal is also taken into account, the median staffweeks for the two five-year periods differ by less than 1 percent. The increase in the range of elapsed time between the two periods of almost 50 percent, reflects the increased diversity and complexity of Bank operations and country conditions. This increase in elapsed time was not accompanied by an increase in the median or range of applied time, and relates to conditions outside the Bank. These delays reflect the increasing difficulty which borrowers face when addressing the complex policy and institutional issues which the Bank's macro-economic and sectoral assistance is designed to support, as well as substantially expanded cofinancing.

While aggregate elapsed time and staff weeks have remained remarkably stable over this ten-year period, there are significant fluctuations over time, within and between regions, reflecting the unique characteristics of individual operations and country conditions. These are masked in the Bank-wide aggregates.

The disaggregated data indicate that the overall increase in elapsed time from FY76-80 to FY81-85 is almost wholly associated with the Africa Regions and frequently relates to the borrower's processing of the loan after the Bank's staff have obtained the approval of senior management to proceed with negotiations (i.e. Loan Committee). These delays are, therefore, largely outside the Bank's control.

Applied time from the departure of the Bank's appraisal mission to Board presentation between FY76-80 and FY81-85 declined in each Region except in East Asia, where it increased marginally (1.5 percent). Applied times from preappraisal to Board presentation generally declined, but there were offsetting increases in Europe, Middle East and North Africa and East Asia. This reflected the need for relatively more intensive preparatory work in some middle-income countries as well as in some new member countries. Given the increased complexity of the Bank's operations in recent years, the stability of the staffweek data clearly suggests improvements in the efficiency with which its resources are used.

Turning to the Regional data in more detail, the Western Africa Region showed the longest elapsed time each year from FY81-FY85 with a median of 57 weeks--33 percent higher than the Bank-wide median. Eastern and Southern Africa ranked second, (except in 1983 when it had the same median elapsed time as the Western Africa Region), at 50 weeks or 16 percent above the Bank-wide median.

The elapsed time in the other four Regions was below the Bank-wide median. Europe, Middle East and North Africa and the Latin America and Caribbean Regions shared the shortest elapsed time of 38 weeks each--12 percent below the median. The range of elapsed times was shortest in East Asia, with a low of 13 weeks and a high of 114 weeks, while Eastern and Southern Africa had the widest range, from 13 weeks to 226 weeks. But it is noteworthy that the lowest elapsed time in each Region was four months or less. In Western Africa Region and Europe, Middle East and North Africa it was three months or less. The Regional variations in elapsed times generally reflect more cumbersome administrative procedures by some borrowers, frequent changes in government in a number of countries, and complex cofinancing arrangements often involving multiple sources of funding.

Variations in applied time between Regions are generally not as marked as for elapsed time. All Regions remained within 12 percent of the Bank-wide median for both periods while most Regions remained within 7 percent of this level. The variations in applied time within Regions over time are very marked reflecting individual operational or country conditions, as well as variations in staff input either at the preappraisal stage or through CESW. Therefore no general conclusions can be drawn from these data.

Few patterns can be drawn from a review of elapsed and applied times by sector. Elapsed times in all sectors except structural adjustment loans and program loans, urban, and oil, gas and coal, increased from FY76-80 to FY81-85, while applied times declined for most sectors.

In reviewing the effectiveness of the Bank's operations, an effort was also made to compare the speed and staff costs of its operations with those of other development institutions, both bilateral and multilateral. But the difficulties already discussed in comparing time and resource costs within the Bank are increased when attempting to compare these measures with those of other agencies.

The availability of data is generally extremely limited and where data are available, they are far from comparable, primarily because the range of Bank outputs is much broader than those of other agencies. In addition, the system for processing loans differs widely in the various agencies.

In some cases, Board approval is sought before much preparation of the proposed operation has been completed, while in others, including the Bank, Board approval is generally sought only when construction designs are completed and costs are relatively firm. This aims to minimize cost overruns, for which the borrower is responsible. But overall implementation of the operation can, and usually does, proceed in advance of Board approval and loan effectiveness, financed from the Bank's Project Preparation Facility or, in some cases, from the borrower's own resources and reimbursed through retroactive financing once the loan is approved.

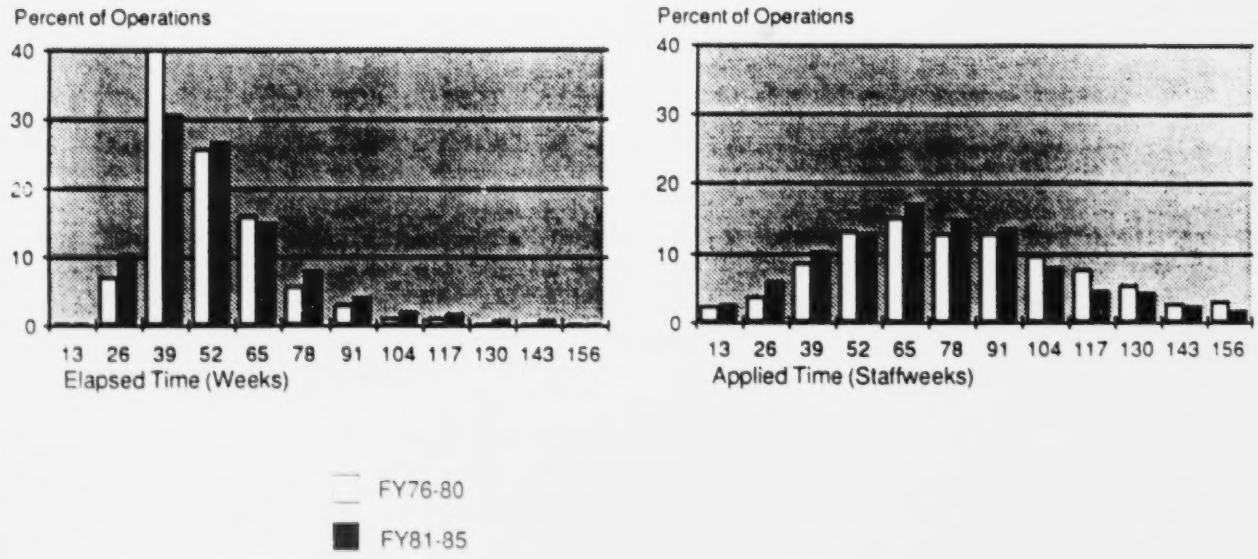
The efficiency of the Bank's operating procedures is difficult to measure because of the diversity and complexity of its work, the unique circumstances of each client, and the impact on the Bank of external factors beyond its control.

Clearly, traditional measures of efficiency - elapsed time, staff time - are inadequate indices of the effectiveness of the Bank's development work. But the available data suggest that substantial improvements in productivity have offset to a significant degree, the increasing time and staff costs entailed in addressing the growing complexity of the Bank's operations, in cofinancing, and in lending for structural and sectoral adjustment.

In order to ensure that the Bank's assistance to member countries is timely and responds effectively to changing needs, the Bank's procedures for providing assistance are kept under continuous review and are administered with the maximum degree of flexibility that is consistent with providing the highest quality assistance on an equitable basis to all recipients.

Distribution of Elapsed and Staff Time [a]
Appraisal Departure to Board Approval

Bankwide



[a] The height of each column represents the percentage of operations with elapsed time (staff time) falling in the 13-week period (3 months) ending with the number of weeks indicated below the column. For example, in FY76-80, 40% of operations required between 26 and 39 weeks to go from Appraisal departure to Board approval; in FY81-85, the equivalent percentage had dropped to 30.6%.